

Financial Statements
Manistee-Benzie Community
Mental Health Services

Manistee, Michigan

September 30, 2005



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Manistee-Benzie Community Mental Health	County Manistee
Audit Date 9/30/05	Opinion Date 12/15/05	Date Accountant Report Submitted to State: 3/28/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Procedures for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED
DEPT. OF TREASURY

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

MAR 29 2006

LOCAL AUDIT & FINANCE DIV.

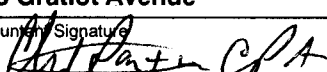
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.			
Street Address 308 Gratiot Avenue	City Alma	State MI	ZIP 48801
Accountant Signature 		Date 3/28/06	

Manistee-Benzie Community Mental Health Services
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September 30, 2005

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INDEPENDENT AUDITOR'S REPORT

Manistee-Benzie Community Mental Health Services
Manistee, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Manistee-Benzie Community Mental Health Services (the Board), as of and for the year ended September 30, 2005, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Board as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2005 on our consideration of the Board's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages I - IV and budgetary comparison information on page 23 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The other supplemental information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Board. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Co., P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 15, 2005

MANAGEMENT'S DISCUSSION and ANALYSIS

Manistee Benzie Community Mental Health
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

The management of Manistee Benzie Community Mental Health (MBCMH) presents the following overview and analysis of the financial activities during the past year. MBCMH was organized under an Urban Cooperation Act between the Board of Commissioners of Manistee County and Benzie County in 1992.

This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation.

Overview of Financial Statements:

Two types of financial statements are provided: Government-wide Financial Statements and Fund Financial Statements.

Government-wide financial statements are designed to present the organization's finances in a layout similar to that of a private sector business. They consist of a Statement of Net Assets (providing historical balance sheet information), which shows the difference between assets and liabilities; and a Statement of Activities (providing historical income statement information), which shows revenues and expenses and the change in net assets from the previous year.

Fund financial statements offer a series of statements that focus on the major governmental funds. For MBCMH, the major funds consist of the following funds: General, Building, Health, and Motor Pool. Reconciliations are also offered between the Fund Financial Statements and the Government-wide Financial Statements.

Notes to Financial Statements which immediately follow the Financial Statements, provide additional and more detailed information that is essential to a full understanding of the data provided in the Financial Statements.

The 2002/2003 fiscal year was the beginning of a contract period in which the Department of Community Health contracted for Medicaid services through a designated Prepaid Inpatient Health Plan (PIHP) which had to consist of 20,000 or more Medicaid covered lives. MBCMH, which has approximately 5,500 total Medicaid lives, entered into an affiliated cooperative agreement with Clinton Eaton Ingham Community Mental Health, Ionia County Community Mental

Manistee Benzie Community Mental Health
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis (continued)

Health, Newaygo County Community Mental Health, and Gratiot County Community Mental Health. This affiliation is called the Community Mental Health Affiliation of Mid-Michigan. Clinton Eaton Ingham Community Mental Health was designated as the PIHP in this cooperative agreement and was awarded the Medicaid contract for the 8 county region. Clinton Eaton Ingham Community Mental Health has sub-contracted with MBCMH to provide Medicaid covered services for the counties of Manistee and Benzie since the Manistee Benzie Community Mental Health entered the affiliation, and for the current fiscal year. The affiliation has formed a base for working together to achieve administrative efficiencies and developing effective methodologies in delivering managed mental health services.

Manistee Benzie Community Mental Health also holds a Managed Mental Health Supports and Services Contract with the Department of Community Health for general funds.

Operating and Financial Highlights

The fiscal year 2004/2005 budget adopted by the governing board was \$13,933,670 of Revenues and \$14,118,154 Expenditures with use of fund balance of \$184,484 for the severance package costs. The Actual compared to Budget for the general fund is presented below.

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Revenue	\$13,824,671	\$13,933,670	\$(108,999)
Expenditures	\$13,816,229	\$14,118,154	\$301,925
Change in Fund Balance	\$8,442	\$(184,484)	\$192,926

The comparison of fiscal year 2004/2005 as compared to fiscal year 2003/2004 is presented below. These amounts are for the general fund of MBCMH.

	<u>2003/2004</u>	<u>2004/2005</u>	<u>Difference</u>
Revenues	\$13,699,856	\$13,824,671	\$124,815
Expenditures	\$14,120,672	\$13,816,229	\$(304,443)

Manistee Benzie Community Mental Health
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis (continued)

The change in revenues recognized in the general fund between the 2004 and 2005 fiscal years was an increase of 1%. Expenditures decreased by 2.2%, due to the fact that in 2004 there was a major purchase of an Electronic Medical Record Software Program, and other increases and updates to technology equipment.

The Medicaid Managed Care Subcontract with the PIHP, Clinton Eaton Ingham CMH, represents 82% of the total revenue, while State Contracts with the Department of Community Health represent 9%. County appropriations are 2% of total revenue, and the remaining 7% is from miscellaneous local contracts, interest income, and third party charge revenue.

In the general fund, there was less than a .5% decrease in Assets, and a 1% decrease in Liabilities as result of less funds owed to governmental units and general accounts payable but an increase in amounts due to other funds a result of increased charges from the Health Fund.

The major portion of capital assets are in the Motor Pool Fund and the Building Fund totaling \$1,256,413 net of depreciation. Long term debt on the capital assets total \$87,267, all of which relates to the buildings.

For the 2003/2004 fiscal year the Department of Community Health revised the Medicaid funding distribution based on a regional rate. The Community Mental Health Affiliation of Mid-Michigan made the decision to continue to fund each affiliate based on the same percentage as the 2002/2003 fiscal year. This two year hold harmless period will end September 30, 2005. The new funding formula calculated within the affiliation by the PIHP, resulted in \$2,335,000 less Medicaid funds for Manistee Benzie Community Mental Health. In anticipation of the funding reduction for the 2006 fiscal year Manistee Benzie Community Mental Health had reviewed programs and services, and had left several vacant positions unfilled. As part of the overall budget reduction the PIHP's level of care guidelines were adopted. In addition the entire Manistee Benzie CMH operations service structure was revamped based on the PIHP service model. Under the umbrella of long term and short term care this model includes more of a focus on Crisis Management as opposed to traditional outpatient clinical services. This new model also includes a more flexible staffing model, which will enable us to better move resources to where there is the most need.

Manistee Benzie Community Mental Health
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis (continued)

Using the new service model it was determined that Substance Abuse services would be eliminated as that program required substantial use of local funds. Other services such as Community Living Supports and Supported Employment also were reduced. Reductions were based on analysis of appropriate service levels per client diagnosis.

Thirty-six full time and part time staff positions were cut as a result of the budget reductions, including staff from all areas of the agency. In addition to staff position reductions a variety of other steps were taken to lessen the impact on services to consumers. These included items such as: no salary increases during FY 2005/2006, discontinuation of longevity pay, reductions in staff development and technology budgets, and reduction in Paid Time Off "payouts". A severance package was offered to all employees where positions were eliminated. In September of 2005 the Board approved a balanced budget plan for the 2005/2006 fiscal year, which included a major restructuring of services and staff.

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Manistee-Benzie Community Mental Health Services

Statement of Net Assets
September 30, 2005 and 2004

	Governmental Activities	
	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$4,074,151	\$3,688,512
Accounts receivable, net	222,380	461,936
Due from other governmental units	100,868	216,659
Prepaid expenses	76,183	121,295
Total current assets	4,473,582	4,488,402
Noncurrent assets		
Capital assets - depreciable, net	1,346,736	1,462,263
Capital assets - land	123,000	122,000
Total noncurrent assets	1,469,736	1,584,263
Total assets	5,943,318	6,072,665
Liabilities		
Current liabilities		
Accounts payable	286,302	459,474
Accrued liabilities	167,127	164,454
Accrued payroll and related liabilities	535,125	467,036
Due to other governmental units	62,699	353,254
Deferred revenue	105,917	-
Notes payable - current portion	55,817	82,722
Total current liabilities	1,212,987	1,526,940
Noncurrent liabilities		
Notes payable - less current portion	87,267	142,899
Total noncurrent liabilities	87,267	142,899
Total liabilities	1,300,254	1,669,839
Net assets		
Invested in capital assets, net of related debt	1,326,652	1,358,642
Unrestricted	3,316,412	3,044,184
Total net assets	\$4,643,064	\$4,402,826

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services

Statement of Activities

For The Year Ended September 30, 2005, With Comparative Data

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2004
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$13,702,115</u>	<u>\$11,909,062</u>	<u>\$1,825,151</u>	\$32,098	(\$64,485)
General revenues					
Unrestricted investment earnings				90,458	47,638
Restricted investment earnings				1,477	4,940
Gain on disposal of fixed assets				6,942	-
Internal service fund revenues, net of charges to the general fund				<u>109,263</u>	<u>80,820</u>
Total general revenues and contributions				<u>208,140</u>	<u>133,398</u>
Change in net assets				240,238	68,913
Net assets - beginning of year				<u>4,402,826</u>	<u>4,333,913</u>
Net assets - end of year				<u>\$4,643,064</u>	<u>\$4,402,826</u>

The Notes to the Financial Statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

Manistee-Benzie Community Mental Health Services
Balance Sheet
Governmental Funds
September 30, 2005 and 2004

	General Fund	
	2005	2004
Assets		
Cash and cash equivalents	\$3,926,683	\$3,549,913
Accounts receivable, net	222,380	453,965
Due from other funds	43,579	44,613
Due from other governmental units	100,868	216,659
Prepaid expenses	60,081	105,129
Total assets	<u>\$4,353,591</u>	<u>\$4,370,279</u>
Liabilities and Fund Equity		
Liabilities		
Accounts payable	\$286,302	\$459,474
Accrued liabilities	88,591	111,268
Accrued payroll and related liabilities	535,125	467,036
Due to other governmental units	62,699	353,254
Due to other funds	601,032	207,847
Total liabilities	<u>1,573,749</u>	<u>1,598,879</u>
Fund equity		
Reserved for prepaid expenditures	60,081	105,129
Unreserved	2,719,761	2,666,271
Total fund equity	<u>2,779,842</u>	<u>2,771,400</u>
Total liabilities and fund equity	<u>\$4,353,591</u>	<u>\$4,370,279</u>

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
For The Year Ended September 30, 2005

Total fund balance - governmental funds	\$2,779,842
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore, are not reported in the general fund.

Add: capital assets	603,043
Deduct: accumulated depreciation	(389,720)

Internal service funds are used by management to charge the costs of certain
activities, such as vehicle operations, building usage, and health benefits, to
individual funds. The assets and liabilities of the internal service fund are
included in the governmental activities in the statement of net assets.

<u>1,649,899</u>

Net assets of governmental activities	<u><u>\$4,643,064</u></u>
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The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For The Year Ended September 30, 2005 and 2004

	General Fund	
	2005	2004
REVENUES		
State Grants		
Department of Community Health Contract		
general fund formula and categorical	\$1,269,020	\$1,241,117
Other State grants	11,110	55,342
Total State grants	<u>1,280,130</u>	<u>1,296,459</u>
Federal grants	<u>153,348</u>	<u>159,283</u>
Contributions - local units		
County appropriations	<u>287,273</u>	<u>279,273</u>
Charges for services		
Medicaid - CEI CMH contract	11,386,810	11,038,789
Medicaid - other	110,247	117,499
Client and third party pay	68,905	214,572
Other contract revenue	343,100	446,565
Total charges for services	<u>11,909,062</u>	<u>11,817,425</u>
Interest and rents		
Interest	<u>90,458</u>	<u>47,638</u>
Other revenue	<u>104,400</u>	<u>99,778</u>
Total revenues	13,824,671	13,699,856
EXPENDITURES		
Health & Welfare - Mental Health		
Personnel costs	7,416,384	7,032,409
Operating expenditures	6,397,161	6,824,321
Capital outlay	<u>2,684</u>	<u>263,942</u>
Total expenditures	<u>13,816,229</u>	<u>14,120,672</u>
Excess of revenues over expenditures	8,442	(420,816)
Other financing sources (uses)		
Operating transfers in (out)	<u>-</u>	<u>216,816</u>
Excess of revenues and other financing sources over		
expenditures and other financing uses	8,442	(204,000)
Fund balance, beginning of year	<u>2,771,400</u>	<u>2,975,400</u>
Fund balance, end of year	<u>\$2,779,842</u>	<u>\$2,771,400</u>

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For The Year Ended September 30, 2005

Net change in fund balances - total governmental funds	\$8,442
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Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated over
their estimated useful lives as depreciation expense.

Add: capital outlay	2,684
Deduct: depreciation expense	(86,935)

Internal service funds are used by management to charge the costs
of certain activities, such as vehicle operations, building usage, and health
benefits, to the general fund. The net revenue (expense) of certain internal
service funds is reported with governmental activities.

316,047

Change in net assets of governmental activities

\$240,238

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Combined Statement of Net Assets
Proprietary Funds
September 30, 2005 and 2004

	Internal Service Funds	
	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$147,468	\$138,599
Due from other funds	601,032	207,847
Accounts receivable - other	-	7,971
Prepaid expenses	16,102	16,166
Total current assets	764,602	370,583
Noncurrent assets		
Capital assets - depreciable, net	1,133,413	1,164,689
Capital assets - land	123,000	122,000
Total noncurrent assets	1,256,413	1,286,689
Total assets	<u>\$2,021,015</u>	<u>\$1,657,272</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Due to other funds	\$43,579	\$44,613
Accrued liabilities	78,536	53,186
Deferred revenue	105,917	-
Notes payable - current portion	55,817	82,722
Total current liabilities	283,849	180,521
Noncurrent liabilities		
Notes payable - less current portion	87,267	142,899
Total noncurrent liabilities	87,267	142,899
Total liabilities	371,116	323,420
Net assets		
Invested in capital assets, net of related debt	1,113,329	1,061,068
Unreserved	536,570	272,784
Total net assets	1,649,899	1,333,852
Total liabilities and net assets	<u>\$2,021,015</u>	<u>\$1,657,272</u>

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Combined Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended September 30, 2005 and 2004

	<u>Internal Service Funds</u>	
	<u>2005</u>	<u>2004</u>
Operating revenues		
Charges for services and rent	\$1,703,206	\$1,587,887
Operating expenses		
Health claims	1,103,883	961,621
Vehicle expense	40,207	30,517
Depreciation	190,216	225,391
Maintenance	21,124	24,496
Insurance	23,993	8,083
Other	3,894	1,147
Total operating expenses	<u>1,383,317</u>	<u>1,251,255</u>
Operating income (loss)	319,889	336,632
Non-operating revenues (expenses)		
Interest income	1,477	4,940
Interest expenses	(12,261)	(42,366)
Gain/(loss) on sale of fixed assets	<u>6,942</u>	<u>(14,985)</u>
Total non-operating expense	<u>(3,842)</u>	<u>(52,411)</u>
Excess of revenues over expenditures	316,047	284,221
Other financing sources (uses)		
Operating transfers in (out)	<u>-</u>	<u>(216,816)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	316,047	67,405
Net assets, beginning of year	<u>1,333,852</u>	<u>1,266,447</u>
Net assets, end of year	<u>\$1,649,899</u>	<u>\$1,333,852</u>

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Combined Statement of Cash Flows
Proprietary Funds
For The Year Ended September 30, 2005 and 2004

	Internal Service Funds	
	2005	2004
Cash flows from operating activities		
Receipts from interfund services provided	\$1,378,068	\$1,298,077
Receipts from others	72,993	84,510
Payments for interfund services	(25,699)	(168,198)
Payment to suppliers	(1,170,174)	(1,085,753)
Net cash provided (used) by operating activities	255,188	128,636
Cash flows from noncapital financial activities		
Operating transfers out	-	(216,816)
Cash flows from capital and related financing activities		
Principal paid on capital debt	(82,537)	(433,574)
Interest paid on capital debt	(12,261)	(42,366)
Proceeds from sales of capital assets	10,527	497,494
Purchase of capital assets	(163,525)	(112,246)
Net cash provided (used) by capital and related financing activities	(247,796)	(90,692)
Cash flows from investing activities		
Proceeds from maturity of investments	-	212,670
Proceeds from interest earnings	1,477	4,940
Net cash provided (used) by investing activities	1,477	217,610
Net increase (decrease) in cash and cash equivalents	8,869	38,738
Cash and cash equivalents, beginning of year	138,599	99,861
Cash and cash equivalents, end of year	\$147,468	\$138,599
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$319,889	\$336,632
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	190,216	225,391
(Increase) decrease in prepaid expenses	64	(16,166)
(Increase) decrease in due from other funds	(393,185)	(207,847)
(Increase) decrease in other receivables	7,971	(2,502)
Increase (decrease) in due to other funds	(1,034)	(163,150)
Increase (decrease) in accrued liabilities	25,350	(43,722)
Increase (decrease) in deferred revenue	105,917	-
Net cash provided (used) by operating activities	\$255,188	\$128,636

The Notes to the Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Manistee-Benzie Community Mental Health Services (the Board) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Board.

Reporting Entity

The Board is organized under the Urban Cooperation Act of 1967 as a Community Mental Health Organization (330.1204) (Act 258 of the Public Acts of 1974, as amended). The Board provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Manistee and Benzie Counties.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Board's reporting entity, and which organizations are legally separate, component units of the Board. Based on the application of the criteria, the Board does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Board. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Manistee-Benzic Community Mental Health Services
Notes To The Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to the general fund for vehicle operations, building operations, and insurance services. Operating expenses for internal service funds include vehicle operations, building operations, and insurance claims. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

The Board reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Funds – These funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies or to other governments on a cost-reimbursement basis. The Motor Pool Fund, Building Fund and Health Fund are reported as Internal Service Funds.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

Budgets are adopted by the Board for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Cash and Cash Equivalents

The Board's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Board to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Board's deposits are in accordance with statutory authority.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Inventories

The Board does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The Board does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements and proprietary fund financial statements.

Computers, software and building and improvements are depreciated using the straight-line method over their estimated useful lives. Vehicles are depreciated using an accelerated method over their estimated useful lives. Following is a breakdown of estimated useful lives used:

Assets	Years
Computers and Office Equipment	5 – 12
Software	3
Automobiles	5
Buildings and Improvements	7 – 40
Land	Not Applicable - Not Depreciated

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Compensated Absences

Paid time off is valued using a vesting schedule based on each employee's years of service ranging from 160 hours during the first year to 320 hours after ten years. Paid time off may not be carried over from one fiscal year to the next and it may not be advanced from a future fiscal year into a current fiscal year. Therefore, the government-wide financial statements do not present a cost for compensated absences as a liability.

Each employee has the option to "sell back" up to half of the annual paid time off, to be paid at the current pay rate for that fiscal year. The payment may be taken as compensation or may be deferred into a tax-free investment.

At the time of termination, no more than half of the paid time off granted during a fiscal year will be paid as compensation.

Deferred Revenue

Deferred revenues arise when resources are received by the Board before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Board has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for risk management are an example of the latter.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Board does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Board.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Board does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2005, the Board incurred expenditures in excess of the amounts appropriated as shown on page 23 of this report as unfavorable variances.

NOTE 3 - DETAIL NOTES

Cash and Cash Equivalents

At September 30th the carrying amount of the Board's cash and cash equivalents are as follows:

	2005	2004
Petty cash	\$900	\$1,025
Cash and cash equivalents	3,373,251	3,687,487
Certificates of deposit	700,000	-
Totals	\$4,074,151	\$3,688,512

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

At year end, the carrying amount of deposits for the Board was \$4,073,251, and the bank balance was \$4,446,378. Of the bank balance, \$300,000 was covered by federal depository insurance and the remaining, was uninsured and uncollateralized. The Board believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Board evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Due From Other Governmental Units

Due from other governmental units as of September 30, consists of the following:

Governmental Unit	2005	2004
Michigan Department of Community Health - OBRA Grant	\$5,834	\$18,825
Michigan Department of Community Health – Wraparound Grant	-	25,237
Benzie County	28,568	28,568
Manistee County	13,750	13,750
Clinton, Eaton, Ingham CMH Authority	7,942	68,922
Manistee Intermediate School District	20,125	11,825
Various Other Governmental Units	24,649	49,532
Totals	\$100,868	\$216,659

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Capital Assets

A summary of changes in the Board's capital assets follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Computers and Office Equipment	\$279,233	\$2,684	-	\$281,917
Software	321,126	-	-	321,126
Automobiles	615,536	126,518	(\$118,057)	623,997
Buildings and Improvements	1,624,359	36,007	-	1,660,366
Land	122,000	1,000	-	123,000
Sub-totals	2,962,254	166,209	(118,057)	3,010,406
Accumulated Depreciation	(1,377,991)	(277,152)	114,473	(1,540,670)
Totals	\$1,584,263	(\$110,943)	(\$3,584)	\$1,469,736

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

Due to Other Governmental Units

Due to other governmental units as of September 30, consist of the following:

Governmental Unit	2005	2004
State of Michigan – Inpatient/Residential Care	\$21,680	\$53,264
State of Michigan – Cost Settlement	-	3,672
Clinton, Eaton, Ingham CMH Authority	4,108	248,126
Other Governmental Units	36,911	48,192
Total	\$62,699	\$353,254

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September or before. Also included are employer payroll taxes.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Long Term Liabilities

The Building Fund financed \$395,000 for the purchase and renovation of land and a building with a bank. The note is payable in monthly installments of \$4,501 with an interest rate of 6.58% and is secured by real estate. The balance owed at September 30, 2005 was \$21,761.

The Building Fund financed \$300,000 for an addition to the Administrative Building with a bank. The note is payable in monthly installments of \$3,399 with an interest rate of 6.36% and is secured by real estate. The balance owed at September 30, 2005 was \$121,323.

The changes in long term liabilities during the 2005 fiscal year are as follows:

Liability	Beginning Balance	Additions	Reductions	Ending Balance
Notes	\$225,621	-	\$82,537	\$143,084

The annual installments to pay principal and interest on obligations outstanding at September 30, 2005 are as follows, including total interest payments of \$13,640.

Year Ended September 30,	Notes Payable
2006	\$62,820
2007	40,782
2008	40,782
2009	12,340
2010	-
2011 - 2015	-

NOTE 4 - OTHER INFORMATION

Risk Management

Michigan Municipal Risk Management Authority

The Board is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board manages its risk exposures and provides certain employee benefits through a combination of self-insurance, risk management pools and commercial insurance. Coverage provided by pools and commercial carriers has not changed significantly and there have been no claims paid in excess of insured limits in the past three years.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

The Board participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for general liability and property damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Board is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment expenses for each occurrence that is within the Member's Self Insured Retention. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Board.

For the period July 1, 2004 through July 1, 2005, the Board's coverage limits are \$5,000,000 for liability and from \$10,000 up to \$200,000,000 for property and crime. The expense recognized by the Board for this type of risk management coverage for this time period totaled \$59,590.

Self-Insured Medical Benefits

The Board has established a self-insurance plan covering certain medical, dental and vision benefits for substantially all of its employees. An internal service fund has been established to pay benefit claims and is funded by the general fund based on projected claims. The Board maintains specific stop-loss coverage of \$40,000 per person each year.

Estimates for the liability for unpaid claims are based on actual claims in process as of the year end. Incurred, but unreported, claims are estimated by management to be insignificant.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Retirement System

Money Purchase Pension Plan

Plan Description

Manistee-Benzie Community Mental Health Services sponsors a Money Purchase Pension Plan (the "Plan"). The Plan is a tax-qualified defined contribution pension plan. As of January 1, 2005, the Board amended this plan effectively merging the Money Purchase Pension Plan with the Retirement Investment Plan. Employees of the Board are generally eligible to participate in the Money Purchase Pension Plan following their attainment of age 18 and completion of six months of service. Employees of the Board are eligible to participate in the Retirement Investment Plan following the completion of one hour of service. As a condition of employment, each participant must agree to contribute 6.2% of his or her compensation to the Retirement Investment Plan.

Funding Policy

Contributions made in respect to the Money Purchase Pension Plan are considered "Base Contributions". Contributions made in respect to the Retirement Investment Plan are considered "Pick-Up" contributions. The Board contributes an amount to each participant's account equal to 7% of the participant's compensation for base contributions. The Board also contributes an amount equal to 6.2% of the participant's compensation for the pick-up contributions. As a condition of employment, each participant must agree to also contribute 6.2% of his or her compensation to the plan. Employees are fully vested in pick-up contributions at all times; however, withdrawals from the pick-up contributions are not allowed prior to termination of employment. The Board's contribution to these plans totaled \$637,431 for the year ended September 30, 2005.

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

REQUIRED SUPPLEMENTAL INFORMATION

Manistee-Benzie Community Mental Health Services
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For The Year Ended September 30, 2005

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
REVENUES				
State Grants				
Department of Community Health Contract general fund formula and categorical	\$1,244,789	\$1,292,421	\$1,269,020	(\$23,401)
Other State grants	12,548	12,548	11,110	(1,438)
Total State grants	<u>1,257,337</u>	<u>1,304,969</u>	<u>1,280,130</u>	<u>(24,839)</u>
Federal grants	<u>212,171</u>	<u>162,321</u>	<u>153,348</u>	<u>(8,973)</u>
Contributions - local units				
County appropriations	<u>305,273</u>	<u>287,273</u>	<u>287,273</u>	<u>-</u>
Charges for services				
Medicaid - CEI CMH contract	11,144,409	11,381,983	11,386,810	4,827
Medicaid - other	132,775	110,644	110,247	(397)
Client and third party pay	308,138	137,221	68,905	(68,316)
Other contract revenue	495,905	386,809	343,100	(43,709)
Total charges for services	<u>12,081,227</u>	<u>12,016,657</u>	<u>11,909,062</u>	<u>(107,595)</u>
Interest and rents				
Interest	<u>50,000</u>	<u>85,000</u>	<u>90,458</u>	<u>5,458</u>
Other revenue	<u>125,750</u>	<u>77,450</u>	<u>104,400</u>	<u>26,950</u>
Total revenues	<u>14,031,758</u>	<u>13,933,670</u>	<u>13,824,671</u>	<u>(108,999)</u>
EXPENDITURES				
Health & Welfare - Mental Health				
Personnel costs	7,250,644	7,550,573	7,416,384	134,189
Operating expenditures	6,781,114	6,567,581	6,397,161	170,420
Capital outlay	<u>-</u>	<u>-</u>	<u>2,684</u>	<u>(2,684)</u>
Total expenditures	<u>14,031,758</u>	<u>14,118,154</u>	<u>13,816,229</u>	<u>301,925</u>
Excess of revenues over expenditures	<u>-</u>	<u>(184,484)</u>	<u>8,442</u>	<u>192,926</u>
Fund balance, beginning of year	<u>2,771,400</u>	<u>2,771,400</u>	<u>2,771,400</u>	<u>-</u>
Fund balance, end of year	<u>\$2,771,400</u>	<u>\$2,586,916</u>	<u>\$2,779,842</u>	<u>\$192,926</u>

The Notes to the Financial Statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

Manistee-Benzie Community Mental Health Services
Supporting Schedule of Personnel Costs
For The Year Ending September 30, 2005 and 2004

Governmental Fund Types

General Fund

	<u>2005</u>	<u>2004</u>
Personnel costs		
Salaries and wages	\$5,331,484	\$5,208,192
Fringe benefits	<u>2,084,900</u>	<u>1,824,217</u>
Total personnel costs	<u><u>\$7,416,384</u></u>	<u><u>\$7,032,409</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Supporting Schedule of Operating Expenditures
For The Year Ending September 30, 2005 and 2004

Governmental Fund Types

General Fund

	<u>2005</u>	<u>2004</u>
Operating expenditures		
Contractual services	\$4,930,633	\$4,938,013
Client supplies	80,703	45,399
Insurance	49,116	88,629
Office and computer supplies	14,464	18,313
Operating supplies	79,539	90,210
Other	58,483	44,538
Rent	315,600	454,638
Repairs and maintenance	81,225	280,572
Small equipment purchases	232,205	196,739
Staff development and training	51,700	52,051
Telephone and utilities	147,751	191,685
Transportation	34,535	82,066
Travel	321,207	341,468
	<u>321,207</u>	<u>341,468</u>
 Total operating expenditures	 <u><u>\$6,397,161</u></u>	 <u><u>\$6,824,321</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Combining Statement of Net Assets
Proprietary Funds
September 30, 2005. With Comparative Data

	Motor Pool Fund	Building Fund	Health Fund	Internal Service Funds	
				2005	2004
Assets					
Current assets					
Cash and cash equivalents	-	-	\$147,468	\$147,468	\$138,599
Investments	-	-	-	-	-
Due from other funds	-	\$257,888	343,144	601,032	207,847
Accounts receivable - other	-	-	-	-	7,971
Prepaid expenses	\$16,102	-	-	16,102	16,166
Total current assets	16,102	257,888	490,612	764,602	370,583
Noncurrent assets					
Capital assets - depreciable, net	202,515	930,898	-	1,133,413	1,164,689
Capital assets - land	-	123,000	-	123,000	122,000
Total noncurrent assets	202,515	1,053,898	-	1,256,413	1,286,689
Total assets	<u>\$218,617</u>	<u>\$1,311,786</u>	<u>\$490,612</u>	<u>\$2,021,015</u>	<u>\$1,657,272</u>
Liabilities and Net Assets					
Liabilities					
Current liabilities					
Due to other funds	\$43,579	-	-	\$43,579	\$44,613
Accrued liabilities	-	\$3,536	\$75,000	78,536	53,186
Deferred revenue	-	-	105,917	105,917	-
Notes payable - current portion	-	55,817	-	55,817	82,722
Total current liabilities	43,579	59,353	180,917	283,849	180,521
Noncurrent liabilities					
Notes payable - less current portion	-	87,267	-	87,267	142,899
Total noncurrent liabilities	-	87,267	-	87,267	142,899
Total liabilities	43,579	146,620	180,917	371,116	323,420
Net assets					
Invested in capital assets, net of related debt	202,515	910,814	-	1,113,329	1,061,068
Unreserved	(27,477)	254,352	309,695	536,570	272,784
Total net assets	175,038	1,165,166	309,695	1,649,899	1,333,852
Total liabilities and net assets	<u>\$218,617</u>	<u>\$1,311,786</u>	<u>\$490,612</u>	<u>\$2,021,015</u>	<u>\$1,657,272</u>

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended September 30, 2005, With Comparative Data

	Motor Pool Fund	Building Fund	Health Fund	Internal Service Funds	
				2005	2004
Operating revenues					
Charges for services	\$178,811	-	\$1,353,008	\$1,531,819	\$1,274,801
Rent	-	\$171,387	-	171,387	313,086
Total operating revenues	178,811	171,387	1,353,008	1,703,206	1,587,887
Operating expenses					
Health claims	-	-	1,103,883	1,103,883	961,621
Vehicle expense	40,207	-	-	40,207	30,517
Depreciation	109,058	81,158	-	190,216	225,391
Maintenance	21,124	-	-	21,124	24,496
Insurance	23,993	-	-	23,993	8,083
Other	2,225	1,048	621	3,894	1,147
Total operating expenses	196,607	82,206	1,104,504	1,383,317	1,251,255
Operating income (loss)	(17,796)	89,181	248,504	319,889	336,632
Non-operating revenues (expense)					
Interest income	-	-	1,477	1,477	4,940
Interest expenses	-	(12,261)	-	(12,261)	(42,366)
Gain/(loss) on sale of fixed assets	6,942	-	-	6,942	(14,985)
Total non-operating revenues (expense)	6,942	(12,261)	1,477	(3,842)	(52,411)
Excess of revenues over expenditures	(10,854)	76,920	249,981	316,047	284,221
Other financing sources (uses)					
Operating transfers in (out)	-	-	-	-	(216,816)
Excess of revenues and other financing sources over expenditures and other financing uses	(10,854)	76,920	249,981	316,047	67,405
Net assets, beginning of year	185,892	1,088,246	59,714	1,333,852	1,266,447
Net assets, end of year	\$175,038	\$1,165,166	\$309,695	\$1,649,899	\$1,333,852

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Combining Statement of Cash Flows
Proprietary Funds
For The Year Ended September 30, 2005, With Comparative Data

	Motor Pool Fund	Building Fund	Health Fund	Internal Service Funds	
				2005	2004
Cash flows from operating activities					
Receipts from interfund services provided	\$188,258	\$74,030	\$1,115,780	\$1,378,068	\$1,298,077
Receipts from others	15,218	57,775	-	72,993	84,510
Payments for interfund services	-	-	(25,699)	(25,699)	(168,198)
Payment to suppliers	(87,485)	-	(1,082,689)	(1,170,174)	(1,085,753)
Net cash provided (used) by operating activities	<u>115,991</u>	<u>131,805</u>	<u>7,392</u>	<u>255,188</u>	<u>128,636</u>
Cash flows from noncapital financial activities					
Operating transfers out	-	-	-	-	(216,816)
Cash flows from capital and related financing activities					
Principal paid on capital debt	-	(82,537)	-	(82,537)	(433,574)
Interest paid on capital debt	-	(12,261)	-	(12,261)	(42,366)
Proceeds from sales of capital assets	10,527	-	-	10,527	497,494
Purchase of capital assets	(126,518)	(37,007)	-	(163,525)	(112,246)
Net cash provided (used) by capital and related financing activities	<u>(115,991)</u>	<u>(131,805)</u>	<u>-</u>	<u>(247,796)</u>	<u>(90,692)</u>
Cash flows from investing activities					
Proceeds from maturity of investments	-	-	-	-	212,670
Proceeds from interest earnings	-	-	1,477	1,477	4,940
Net cash provided (used) by investing activities	<u>-</u>	<u>-</u>	<u>1,477</u>	<u>1,477</u>	<u>217,610</u>
Net increase (decrease) in cash and cash equivalents	-	-	8,869	8,869	38,738
Cash and cash equivalents, beginning of year	-	-	138,599	138,599	99,861
Cash and cash equivalents, end of year	<u>-</u>	<u>-</u>	<u>\$147,468</u>	<u>\$147,468</u>	<u>\$138,599</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:					
Operating income (loss)	(\$17,796)	\$89,181	\$248,504	\$319,889	\$336,632
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation expense	109,058	81,158	-	190,216	225,391
(Increase) decrease in prepaid expenses	64	-	-	64	(16,166)
(Increase) decrease in due from other funds	-	(50,041)	(343,144)	(393,185)	(207,847)
(Increase) decrease in other receivables	-	7,971	-	7,971	(2,502)
Increase (decrease) in due to other funds	24,665	-	(25,699)	(1,034)	(163,150)
Increase (decrease) in accrued liabilities	-	3,536	21,814	25,350	(43,722)
Increase (decrease) in deferred revenue	-	-	105,917	105,917	-
Net cash provided (used) by operating activities	<u>\$115,991</u>	<u>\$131,805</u>	<u>\$7,392</u>	<u>\$255,188</u>	<u>\$128,636</u>

The Notes to the Financial Statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Manistee-Benzie Community Mental Health Services
Manistee, Michigan

We have audited the financial statements of the governmental activities and each major fund of Manistee-Benzie Community Mental Health Services (the Board) as of and for the year ended September 30, 2005, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated December 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Board in a separate letter dated December 15, 2005.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Co, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 15, 2005



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MANAGEMENT LETTER

MAR 29 2006

LOCAL AUDIT & FINANCE DIV.

Board of Directors
Manistee-Benzie Community Mental Health Services
Manistee, Michigan

In planning and performing our audit of the financial statements for Manistee-Benzie Community Mental Health Services for the fiscal year ended September 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 15, 2005 on the financial statements of Manistee-Benzie Community Mental Health Services.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Co., P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 15, 2005

STATUS OF PRIOR YEAR RECOMMENDATIONS

During the audit we were pleased to note that all of the recommendations identified in the management letter Manistee-Benzie Community Mental Health Services (the Organization) from the prior year had been reviewed and implemented. We commend you on your efforts to strengthen internal controls and operating efficiencies.

CURRENT YEAR COMMENTS

Use Excess Cash to Reduce Debt

During our audit, we noted that the Organization was earning between 1.24% and 4.29% rates of return on invested cash. However, we realize that earning a higher rate of interest in these relatively low-interest economic times may be difficult. Therefore, we recommend that management analyze its cash needs and consider applying the excess cash to reducing its debt. The current interest rate on the Organization's debt is approximately 6.5%.

GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Organization consider the effects of GASB 45 on any current or future postemployment benefits packages.

The effective date for the Organization to implement this new standard is for the fiscal year ending September 30, 2009. However, earlier application is encouraged by the GASB.

Motor Pool Fund – Negative Fund Balance

As of September 30, 2005, the Organization's motor pool fund reported a negative unreserved net asset amount. We recommend management transfer sufficient amounts into this fund in order for this amount to be positive. Additionally we recommend management monitor this issue on a regular basis.